

# The State of Tennessee



## Deferred Compensation Program

## Withdrawing Funds *at Retirement*



# Table of Contents

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## **Setting Up Benefit Payments ..... 1**

When is the earliest I may begin withdrawals?

When is the latest I may begin withdrawals?

What payment methods are available?

How do I apply for benefits?

Can my check be deposited directly into my account?

Are there any charges on withdrawals?

When will my benefit payment(s) be issued?

What happens if I still have a 401(k) plan loan outstanding when I retire?

## **Rollovers/Transfers ..... 6**

May I have all or part of my account rolled to an IRA or to another plan?

How do I request a transfer from the state's 457 or 401(k) plan to pay for prior service I am purchasing in TCRS?

## **Taxes ..... 8**

How will my benefits be taxed?

How will withholding on my benefit payments be determined?

## **What to Expect After Payments Begin ..... 10**

What happens to the balance in my account after I start withdrawals?

What happens if I face a financial emergency after I begin withdrawals?

Will payments from either plan have any impact on Social Security benefits?

May I make contributions to my account while I am retired?

What happens if I return to service after my payments begin?

May benefits from this program be assigned under court orders?

## **Beneficiary Information ..... 12**

Are there any restrictions on naming a beneficiary at retirement or changing my beneficiary after retirement?

Who should my beneficiary contact after my death?

What withdrawal rules will apply to my beneficiary?

Are there any special tax rules applicable to beneficiaries?

## **Who to Contact for More Information ..... 13**

# Setting Up Benefit Payments

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## When is the earliest I may begin withdrawals?

Federal law permits withdrawal of deferred funds when one of the following occurs:

- ◆ Termination of Employment with the state
- ◆ Retirement (Regular, Early, or Disability)
- ◆ Financial Hardship or Unforeseeable Emergency (as defined by the plan)
- ◆ Age 59½ (401(k) plan only)
- ◆ Death

To be eligible for a withdrawal from either state plan based on termination or retirement, you must have received your final paycheck and you must have severed employment at least 30 days earlier.

## When is the latest I may begin withdrawals?

Under federal law, you must begin withdrawing benefits by April 1st of the calendar year following the year in which you reach age 70½ or retire, whichever is later. At that point, the state's plans require your withdrawals to be set up so that they will be paid out within a period that does not exceed your life expectancy (as determined by IRS tables) or the joint life expectancy of you and your beneficiary. Depending on the withdrawal method you select, you may be eligible to postpone your first withdrawal until April 1 of the year following the year during which you turn 70½, but you would then need to take two years worth of required payments by December 31st of that year.

If you do not meet the required minimum withdrawal provisions, federal law imposes a penalty tax equal to 50% of the amount you should have withdrawn that year but did not. Refer to IRS Publication 575, *Pension and Annuity Income*, for more information on IRS distribution rules.

## What payment options are available?

Benefits from either plan may be distributed in (1) a lump sum, (2) periodic payments, (3) required minimum distributions, or (4) an annuity. You may use a combination of more than one method of payment if you wish.

As you decide what payment method to use, you should consider what other sources of retirement income you will have, whether you will be old

enough to draw social security benefits when you retire, whether you have dependents who will need this source of income after your death, what impact inflation may have on your retirement income, what your tax bracket will be when you retire, special tax treatments that which may be available, and tax penalties that may apply.

**1) *Lump Sum Payment*** - You may elect to withdraw all or part of the funds in your account in one payment. If you have less than \$5,000 in the plan, a total lump sum withdrawal is normally the only payment option available to you. If you were born before January 1, 1936 and have used the 401(k) plan for five years or more, you may qualify for forward income averaging tax treatment if you receive a total lump sum withdrawal. To elect a total or partial lump sum withdrawal, complete the Lump Sum Distribution Request for the 401(k) plan or the Lump Sum Distribution Request for the 457 plan.

**2) *Periodic Payments*** - You may elect to take periodic withdrawals directly from your account for a specified period or at a fixed dollar amount. Periodic payments may be set up to occur annually, quarterly, semi-annually, or monthly. During the payout period, your remaining account balance will stay invested in the product(s) you have chosen. Each periodic payment will be drawn proportionately from all funds you hold in the plan, unless you specify otherwise on your Distribution Request. To elect one of the following periodic payment plans, complete the Periodic Payment Request for 401(k) plan or the Periodic Payment Request for 457 plan.

- ◆ ***Periodic Payments for a Specified Period*** - You elect the total number of payments you wish to receive. For example, if you want monthly payments to last 10 years, you would indicate 120 monthly payments. Each payment amount will most likely vary with this method since your payment amount is determined by dividing the current account balance by the number of payments remaining. If you are age 70½ or older and have terminated state employment, the period remaining may not exceed your life expectancy or the joint life expectancy of you and your designated beneficiary.

- ◆ ***Periodic Payments of a Fixed Amount*** - You elect the amount you wish to receive monthly, quarterly, semi-annually, or annually. A \$50 minimum payment applies. The length of time your payments will last will vary depending on investment performance. If you are 70½ and have terminated state employment, the payment amount must satisfy IRS minimum distribution requirements.
- ◆ ***Interest Only Until Age 70½*** - If your entire account is invested in fixed (interest-bearing) products, you may elect to withdraw only the interest earnings until you reach age 70½. Once you reach age 70½, your payments will automatically be converted to the Automated Minimum Distribution Payout discussed below.

**3) *Minimum Required Distributions***- If you are age 70½ or over and want to take only enough out of the plan each year to avoid IRS penalties, you may elect a minimum required distribution payout. During the payout period, your remaining account balance will stay invested in the product(s) you have chosen. Great-West Retirement Services<sup>SM</sup> will recalculate your minimum distribution amount at the beginning of each calendar year. The gross yearly payment amount is determined by dividing your December 31 account balance by the divisor from the current IRS Life Expectancy Tables. Once the yearly amount is determined, your individual payment amount is calculated based on your payment frequency. For example, your yearly distribution requirement would be divided by 12 if you are receiving monthly payments. The payment amount will vary from year to year depending on the performance of the investments in your account. To make this election, complete the Automated Minimum Distribution Request for 401(k) plan or the Automated Minimum Distribution Request for 457 plan.

**4) *Annuity Payments*** - You may elect to purchase an annuity from ING, the insurance company under contract with the program. An annuity provides a series of payments for a specified period of time, for the lifetime of the participant, or for the joint lifetime of the participant and a beneficiary. The amount of each payment is determined by the amount invested, the type of annuity contract selected, the company's interest rate assumptions, and the actuarially projected length of the

payment period. The portion of your account balance you use to purchase the annuity is transferred to the insurance company. Following is a description of the most common annuity choices.

- ◆ *Designated Period Annuity*— The insurance company will pay you a certain amount during the period you elect (usually 5, 10, or 15 years).
- ◆ *Life Annuity*— The insurance company will pay you a certain amount for as long as you live. Upon your death, your beneficiary will not receive payments.
- ◆ *Life Annuity with Period Certain Feature*— The insurance company will pay you a certain amount for as long as you live, and will pay your beneficiary the payments remaining in the “period certain” (usually 5, 10, or 15 years) if you do not live until the end of that period.
- ◆ *Life Annuity with Joint & Survivor Feature*— The insurance company will pay you a certain amount for as long as you are alive, and will continue payments to your beneficiary after your death at 100% or 50% of the original payment amount, depending on the option you elect.

If you elect to take an annuity, you may choose either a fixed or a variable annuity, or you may split your account between fixed and variable payouts. With a fixed annuity, the amount of each payment is guaranteed and will not change. Variable annuity payment amounts are not guaranteed and will either increase or decrease with investment performance. Contact Great-West Retirement Services<sup>SM</sup> for an annuity application.

## How do I apply for benefits?

Visit the Internet site or contact Great-West Retirement Services<sup>SM</sup> for the appropriate Distribution Request Form. Before you file your application, you may request estimates of the amounts you would receive under various payment options. When you approach retirement, you may want to set up an appointment with a local Great-West Retirement Services<sup>SM</sup> representative for retirement counseling. You may also want to consult your tax adviser.

## **Can my check be deposited automatically into my account?**

If you elect to receive periodic withdrawals from your account, you will be eligible to have your payments deposited directly to your checking or savings account. Contact Great-West Retirement Services<sup>SM</sup> or go to the Internet site for a Direct Deposit Form. If you elect to purchase an annuity from ING, there is a section on the Annuity Contract which allows you to authorize payments to be deposited directly to your bank. Lump sum withdrawals are not available via direct deposit. If you sign up for direct deposit, it is still important that you keep your address current with Great-West Retirement Services<sup>SM</sup>. Even though checks won't be mailed to you, a 1099-R statement will be mailed to you each year.

## **Are there any charges on withdrawals?**

None of the current investment options have any withdrawal (surrender) charges at retirement. Withdrawals from the American General Life Insurance product (offered prior to January 1, 1986) may be subject to a \$50 surrender charge.

## **When will my benefit payment(s) be issued?**

Great-West Retirement Services<sup>SM</sup> issues lump sum withdrawals and periodic payments daily. If you select periodic payments, you may choose which day of the month you wish to receive your withdrawal except for the 29th, 30th, or 31st. Annuity payments issued directly by ING are generally issued on the last business day of the month. Annuity payments generally require 6 to 8 weeks to begin.

Once the Great-West Retirement Services<sup>SM</sup> office in Greenwood Village, Colorado receives your completed and approved Distribution Request for a lump sum payment or periodic payments, your payment(s) will be processed within 3 to 5 business days unless you have requested a later payment date.

## **What happens if I still have a 401(k) plan loan outstanding when I retire?**

You may repay your loan in a lump sum with a personal check or you may have the outstanding balance treated as a taxable withdrawal.

# Rollovers/Transfers

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## **May I have all or part of my account rolled over to an IRA or to another plan?**

After you meet one of the conditions for withdrawal (typically severance of employment), you may request that your eligible deferred compensation withdrawal be transferred to a 401(a) plan, a 401(k) plan, a traditional IRA, a 403(b) plan or another governmental employer's 457(b) plan. A withdrawal is normally eligible for rollover unless it is (1) part of a series of substantially equal periodic payments made for your life or life expectancy or for the life expectancies of you and your beneficiary, (2) part of a series of substantially equal periodic payments made for a specified period of 10 years or more, (3) a withdrawal you are required to take because of age, or (4) a hardship or unforeseeable emergency withdrawal.

Not all plans will accept rollovers, however, so be sure to check with the new plan before requesting a rollover withdrawal. Also, keep in mind that account balances moved into another plan will be subject to the rules and procedures of the new plan, so be sure to research the new plan's rules before you make a change. If you roll money out of a 457 plan, it may no longer be exempt from the 10% early withdrawal penalty. If you roll over money from a 401(k) account, that money may never be eligible for forward income averaging.

If you decide to have your withdrawal rolled over, you will need to complete a Lump Sum Distribution Request form for the appropriate State of Tennessee plan in addition to any forms required by the receiving plan. Submit your completed, notarized Lump Sum Distribution Request for 401(k) plan or Lump Sum Distribution Request for 457 plan to Great-West Retirement Services<sup>SM</sup>. You will provide information about the plan that is to receive the rollover on that form. Your new plan/provider may require you to complete additional paperwork for them to accept the money, but their forms will NOT substitute for the applicable State of Tennessee Distribution Request form. No rollover from either state plan will be processed until a completed Lump Sum Distribution Request form has been received.



## **How do I request a transfer from the state's 457 or 401(k) plan to pay for prior service I am purchasing in Tennessee Consolidated Retirement System (TCRS)?**

The only circumstance under which you may make an “in-service” transfer from your 401(k) or 457 account without meeting the conditions for withdrawal is if the money is to be used immediately to complete your purchase of prior service in the TCRS. After you have established your prior service eligibility with TCRS and received a current TCRS prior service billing statement, submit a copy of that billing statement along with your completed 401(k) Lump Sum Distribution Request form or 457 Lump Sum Distribution Request form to Great-West Retirement Services<sup>SM</sup>. They will send the check directly to the TCRS Prior Service Office. Allow 2 to 3 weeks for processing.

For more information on purchasing TCRS prior service with a transfer, refer to the TCRS Publication, *Purchasing Prior Service with a Rollover*, or contact the TCRS Prior Service Office at 800-770-8277 or 615-741-4868.

If you plan to purchase TCRS prior service with a transfer from a 401(k) plan, governmental 457 plan, 403(b) plan, or IRA, TCRS requires you to complete a TCRS Application for Acceptance of Rollover Funds and submit it to the TCRS Prior Service Office.

# Taxes

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A Special Tax Notice written by the IRS provides detailed information on the tax treatment of rollover distributions. Refer to the 401(k) Notice for Payments from the 401(k) plan or the 457 Notice for Payments from the 457 plan. These notices are incorporated into most of the program's Distribution Requests. They are also available under "Retirement Distributions" at [www.treasury.state.tn.us/dc/](http://www.treasury.state.tn.us/dc/).

## How will my benefits be taxed?

Payments you receive from either deferred compensation plan will be reported to you and to the IRS. They must be reported as income in the year(s) you receive them. For each year you receive a payment, the administrator or your annuity provider will mail your Form 1099-R to you by January 31 of the next year.

**1) Early Distribution Penalty** — Federal law requires a 10% penalty on 401(k) distributions made before age 59½ except in the following circumstances:

- ◆ Distributions made after the participant's death,
- ◆ Distributions made after and on account of the participant's disability,
- ◆ Distributions which are part of a series of substantially equal periodic payments for the participant's life,
- ◆ Distributions made due to the participant's severance of employment after age 55,
- ◆ Distributions which are used to pay medical care expenses which would qualify for tax deduction, or
- ◆ Distributions which are rolled over to another eligible retirement plan or traditional IRA.

Determination and payment of the early distribution penalty is the responsibility of the individual. Refer to IRS Form 5329 for information.

**2) Ten-Year Forward Income Averaging** — If you were born before January 1, 1936, you may be eligible to use *ten-year averaging* if you take a lump sum withdrawal from the 401(k) plan. Forward income averaging tax treatment lets you figure your income tax as if you received the money over ten years instead of one year. Since it is also figured separately from tax on any other income, it can result in considerable tax savings. In order to take advantage of forward averaging, you must have been a participant in the 401(k) plan for five years or longer. Refer to IRS Publication 575 *Pension and Annuity Income* and Form 4972 for information.

You can continue to receive the best tax advantages from the program through careful planning before you select the time and method that benefits will be paid to you. You may want to consult a tax adviser before you make your selection. The tax rules explained in this booklet are subject to revision by U.S. Congress and/or Treasury, so you should obtain current information before you choose a payment method.

## **How will withholding on my benefit payments be determined?**

Tax withholding will normally be applied to payments you receive. When you apply for benefits, you will have the opportunity to complete a Withholding Certificate on your Distribution Request form. You may file a new Withholding Certificate for either plan at any time.

*On lump sum withdrawals from either plan and any other withdrawals that would be eligible for rollover*, federal regulations require a flat 20% withholding. *For annuity payments and periodic payments for period certain of 10 years or longer or minimum withdrawal payments*, withholding will be based on your marital status and the number of withholding allowances claimed. If you do not file a Withholding Certificate, tax withholding will normally be calculated as if you were married with three dependents. The total amount withheld will be reported to you and to IRS on your annual Form 1099-R.

# What to Expect After Payments Begin

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## What happens to the balance in my account after I start withdrawals?

*If you choose to take periodic payments or minimum withdrawal payments from the plan,* the balance of your account will remain invested in the products you have chosen. You may transfer your funds among the program's products in the same manner as active participants. The fees which apply to active participants' accounts will also apply to your account. You will continue to receive an account statement from the plan each quarter and you may continue to obtain current information about your account via the Internet site at **[www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc)** or KeyTalk® at **(800) 922-7772**.<sup>1</sup>

*If you choose to purchase an annuity,* the funds in your account will be transferred to the insurance company. The insurance company will send you a notice letter verifying all aspects of the annuity purchase with your first payment. Be sure to keep this letter with your important documents since it is the only report you will receive from the insurance company other than your annual Form 1099-R. Once an annuity is established, it generally may not be changed and you may not withdraw or transfer funds.

## What happens if I face a financial emergency after I begin withdrawals?

- ◆ *If you are receiving periodic payments or minimum withdrawal payments,* you may request an additional lump sum amount by completing a Lump Sum Distribution Request form. (Depending on the payment method you have been using, your future periodic or minimum withdrawal payments may be reduced as a result.)
- ◆ *If you are receiving periodic payments* and need to increase your fixed payment amount or shorten your payment period, you may do that by filing a new Periodic Payment Distribution Request form.
- ◆ *If you have purchased a fixed or a lifetime annuity,* you may not make any changes to the annuity withdrawal.

<sup>1</sup> Access to KeyTalk® and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance, or other reasons.

## **Will payments from either plan have any impact on my Social Security benefits?**

Withdrawals from the program are not subject to Social Security taxes nor earnings test limits at the time of withdrawal. If the Social Security Administration should ever notify you that your withdrawals from either plan are being counted in earnings test limits, please contact the administrator or the State Treasury Department's Deferred Compensation Office for assistance.

## **May I make contributions to my account while I am retired?**

After you leave state service, you will not be eligible to make any further contributions to your account, nor to take a loan against your 401(k) account.

## **What happens if I return to service after my payments begin?**

*Annuity payments* may not be changed once they have begun; however, *periodic payments* from the 401(k) plan or the 457 plan may be stopped while you are reemployed if your reemployment is expected to continue for more than 100 paid days.

*Deferrals* to either plan may be made while you are reemployed; however, if you make contributions to the 401(k) plan during a temporary reemployment period in which you also receive benefits from TCRS or the ORP, you will not be eligible to receive matching employer contributions.

## **May benefits from this program be assigned under court orders?**

The assets in the 457 trust and the 401(k) trust are exempt from execution, attachment, garnishment, or other process, except levies issued by the Internal Revenue Service. The value of a member's account may be considered when dividing marital assets at the dissolution of a marriage; however, since government plans are not subject to ERISA, the funds from the account itself can not be paid directly to an ex-spouse by the plan. See *Tennessee Code Annotated*, Section 26-2-105. When applicable, participants need to make certain their attorneys are aware of these provisions.

# Beneficiary Information

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## **Are there any restrictions on naming a beneficiary at retirement or changing my beneficiary after retirement?**

You may name any person you wish as your beneficiary at retirement, or you may name your estate. If you are selecting periodic payments, you will provide the name of your beneficiary on the Distribution Request form. If you are purchasing an annuity through an insurance company, you will also need to provide the name of your beneficiary on the Annuity Contract Application. Unless you have selected a life annuity with a joint and survivor feature, you may name more than one person as beneficiary, you may name a contingent beneficiary, and/or you may change your beneficiary after you have begun drawing benefits. Contact Great-West Retirement Services<sup>SM</sup> for the applicable form(s).

## **Who should my beneficiary contact after my death?**

Upon your death, whether before or after retirement, your beneficiary should contact Great-West Retirement Services<sup>SM</sup> Nashville office for information and appropriate forms. Forms are also available on the Internet.

## **What withdrawal rules will apply to my beneficiary?**

If you die *before beginning withdrawals*, your beneficiary will have two choices: (1) the beneficiary may elect to withdraw your full account balance within five years after the year of your death, or (2) the beneficiary may elect to withdraw the full account balance over his or her life expectancy. Unless your beneficiary is your spouse, he or she must begin withdrawals by December 31 of the year following the year of your death in order to be eligible to withdraw the account balance over his or her life expectancy. A spouse who is named as beneficiary may elect to wait to begin withdrawals until December 31 of the year you would have turned 70½ by filing a Spousal Beneficiary Request form with Great-West Retirement Services<sup>SM</sup>. (If the spouse is the only beneficiary of the account, submitting this form will also give that spouse control of the investment of the account.)

If you die *after beginning withdrawals*, your beneficiary must withdraw any remaining funds at least as quickly as they would have been distributed under the payment method you were using.

**12** *If your estate is named as your beneficiary, all withdrawals must be completed within five years after the year of your death.*

## Are there any special tax rules applicable to beneficiaries?

Withdrawals paid to a beneficiary are taxable to that beneficiary; withdrawals paid to an estate are taxable to the estate. Withdrawals to a beneficiary from the 457 plan or the 401(k) plan are reported on a Form 1099-R in the beneficiary's name. Lump sum withdrawals from either plan to the participant's spouse may be rolled over to an IRA or to any other eligible tax-deferred plan in the spouse's own name. Lump sum withdrawals from the 401(k) plan issued after a participant's death may be eligible for forward averaging if the participant would have been eligible for forward averaging. Beneficiaries are not subject to the 401(k) plan's early withdrawal penalty regardless of the participant's age at the time of death. For more information, refer to IRS Publication 575, *Pension and Annuity Income*.

## Who To Contact for More Information

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**The services and communications provider for the program is:**

Great-West Retirement Services<sup>SM</sup>

8525 E. Orchard Road

Greenwood Village, CO 80111

### **Local Office:**

Great-West Retirement Services<sup>SM</sup>

545 Mainstream Dr., Suite 407

Nashville, TN 37228

**Web site:** [www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc)

**Toll-Free KeyTalk® Voice Response System:** (800) 922-7772

(Press "1" to use the automated voice response system or to speak to the national customer service center or press "2" to reach the local office.)

**Telecommunication Device for Deaf Persons (TDD):** (800) 766-4952

The information in this booklet is also available on the program's Internet site at <http://www.treasury.state.tn.us/dc/> under Retirement Withdrawals. In that version, all of the forms and IRS publications referenced in the booklet are linked to the applicable Deferred Compensation, IRS form or publication to make them easier for you to find.



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Great-West Retirement Services<sup>SM</sup>

8525 E. Orchard Road  
Greenwood Village, CO 80111  
(800) 922-7772, press "1"

**Local Office:**

Great-West Retirement Services<sup>SM</sup>

545 Mainstream Drive, Suite 407  
Nashville, TN 37228  
(800) 922-7772, press "2"

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